



*United States Attorney
Southern District of New York*



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**FORMER CHIEF OPERATING OFFICER PLEADS GUILTY
IN MANHATTAN FEDERAL COURT IN CONNECTION WITH \$140
MILLION INVESTMENT FRAUD AND STOCK MANIPULATION SCHEME**

PREET BHARARA, the United States Attorney for the Southern District of New York, announced today that STEPHEN SHEA, the former Chief Operating Officer at Sky Capital, LLC, has pled guilty in Manhattan federal court in connection with a scheme to defraud investors through two successive securities broker-dealers -- The Thornwater Company, L.P. ("Thornwater"), and Sky Capital, LLC.

According to the Superseding Indictment to which SHEA pled guilty, and statements made during the guilty plea proceedings before U.S. District Judge PAUL A. CROTTY:

From 1998 through 2006, SHEA participated in a scheme with ROSS MANDELL, ADAM HARRINGTON, and others to defraud investors through material misrepresentations and omissions that induced people to invest in private placements and other purported securities investment opportunities. In fact, investor funds were substantially used to enrich the defendants and others; to pay excessive, undisclosed commissions to brokers; and to pay off victims who had lost money through prior purported investment opportunities. In connection with the scheme, brokers, acting primarily from the offices of Thornwater and Sky Capital, LLC, in New York, New York, raised a total of approximately \$140 million from investors. MANDELL allegedly controlled the operations of both broker-dealers.

As part of the scheme, brokers at Sky Capital, LLC, manipulated the market price of the stock of two affiliated entities, Sky Capital Holdings Ltd., and Sky Capital Enterprises Inc. (collectively "Sky Capital"). SHEA and others directed the market manipulation of Sky Capital stocks by enforcing a "no-net sales" policy designed to inflate the price of Sky Capital stocks. SHEA, and allegedly MANDELL and HARRINGTON, made undisclosed payments to Sky Capital brokers in exchange for their assistance with this aspect of the scheme.

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SHEA, 38, of Brooklyn, New York, pled guilty to conspiracy and securities fraud charges. The conspiracy count carries a maximum sentence of five years in prison, and the securities fraud count carries a maximum sentence of twenty years in prison. SHEA faces a maximum fine of \$250,000, or twice the gross gain or loss from the offense on the conspiracy count, and a maximum fine of \$5 million on the securities fraud count. SHEA also faces mandatory restitution to the victims of his crimes.

The charges against MANDELL and HARRINGTON remain pending and are merely accusations. They are presumed innocent unless and until proven guilty.

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Mr. BHARARA praised the investigative work of the Federal Bureau of Investigation. He thanked the U.S. Securities and Exchange Commission for its assistance in this matter.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

Assistant U.S. Attorneys PABLO QUIÑONES and KATHERINE GOLDSTEIN are in charge of the prosecution.

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